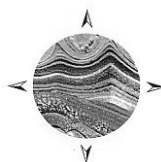


MALACHITE RESOURCES LIMITED

A.B.N. 86 075 613 268



INTERIM REPORT

FOR THE HALF-YEAR 31 DECEMBER 2013

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Malachite Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MALACHITE RESOURCES LIMITED

Interim Consolidated Financial Report For The Half-Year 31 December 2013

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Malachite Resources Limited and the entities it controlled (together, the 'Group') at the end of, or during, the half-year ended 31 December 2013.

DIRECTORS

The names of the Malachite Resources Limited's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

| | |
|---|-------------------------------|
| Mr T Cuthbertson (Non-Executive Director) | (appointed Chairman 26/07/13) |
| Mr J. Dean (Non-Executive Director) | |
| Mr A McMillan (Non-Executive Director) | |
| Mr RM Meares (Non-Executive Director) | (resigned 31/12/13) |

REVIEW AND RESULTS OF OPERATIONS

Over the past six months the Group's business activities have been primarily focused on advancing the development of the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

LORENA GOLD PROJECT - MLs 7147, 90192 to 90196 (MAR 100% with BCD farming in to earn 50% economic interest)

Malachite and BCD are working jointly (50/50 Joint Venture) towards developing the Lorena Gold Project, located about 15km east of Cloncurry in northwest Queensland. BCD is required to fund this development to earn its 50% economic share in the Lorena gold mining project.

Over the last six months, the Joint Venture parties (with BCD the Manager of the JV) have been actively advancing the development of the Project. Key activities included the following:

- The delivery of the primary ball mill (built in Turkey), the magnetic separators, and the plate and frame filter to site;
- A review by the Queensland Department of Environment and Heritage Protection (DEHP) of the Mining Activity Application Report (MAAR) with the application to amend the existing Environmental Authority (EA) for Lorena;
- Optimisation of plant and engineering work for the Lorena Project;
- The finalisation of pit optimisation studies; and
- Ongoing discussions with civil and mining contractors.

During the period the DEHP reviewed the application to amend the existing EA for Lorena. The submission included detailed information on tailings dam, waste rock design and water management plan. It is expected that the EA will be approved in the March 2014 quarter. Upon receiving the approval, major site works are expected to commence shortly thereafter.

BCD is engineering a flotation production facility at Lorena to process 120,000 tonnes per annum of ore. The gold concentrate produced at Lorena will be transported to BCD's Beaconsfield facility in Tasmania to produce gold doré. The overall recovery of gold from ore mined at Lorena to doré is expected to be between 75% and 80%. In order to optimise the metallurgical recovery, BCD has recently instigated further metallurgical test work from samples via diamond drilling taken from the Lorena pit area in January 2014.

It is expected that in the first year of production the Lorena project will produce around 30,000 ozs of recovered gold from an open cut operation. The Lorena gold project has potential for resource extensions at depth; however this requires confirmation by drilling which is expected to occur as soon as cashflow is generated from the operation.

To date, Lorena has a total JORC Mineral Resource in the Measured, Indicated and Inferred categories containing approximately 56,600oz of gold at a 2g/t cut-off grade. This is made up by a resource of 179,500t at 8.8g/t Au containing 50,700oz of gold in the A Lode (16,700oz of gold in the Measured category and 34,000oz of gold in the Indicated category), and a resource of 23,700t at 7.8g/t Au containing 5,900oz of gold in the B Lode (800oz of gold in the Indicated category and 5,100oz of gold in the Inferred category). These resources are within a potential open pit mine and are open at depth.

The Company believes that there are considerable regional opportunities once the plant is operating at Lorena. Following the open cut operations both Malachite and BCD anticipate that operations may continue based on potential extensions of the current Lorena resource at depth, potential new resources from surrounding prospects and the toll treatment of third party ores.

MALACHITE RESOURCES LIMITED

**Interim Consolidated Financial Report
For The Half-Year 31 December 2013**

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

EPM 18189 and EPM 18908

During the period, a program of soil geochemical sampling totalling 241 samples was conducted between the Lady Mary and Copperhead prospects focussing on a linear magnetic high, and on areas with unexplained gold stream sediment anomalies. No further work was conducted on these tenements as the Company focused on its Lorena gold mine. Once the Lorena gold mine is operational it is expected that the Company will be in a position to drill test the Lady Mary and Bloodwood prospects. The prospects on the EPMs are within a short trucking distance of the Lorena gold mine.

OTHER TENEMENTS

Conrad Silver Project (MLs 5992, 6041 & 6042, EL5977 and EPL1050)

There was no progress on the development of the Conrad Silver Project as the Company focused on its Lorena Gold Project. Rehabilitation of drill pad sites at Conrad continued as part of our normal environmental procedure.

Tooloom Gold Project (MLs 1237, 1238 & 1385 and EL6263)

There was no progress on the Tooloom Gold Project as the Company focused on its Lorena Gold Project. Some rehabilitation work was carried out in December by the owners of plant and equipment that resides on ML 1237 and ML 1385. The rehabilitation work consisted of clearing lantana and other weeds and stabilising the site around the plant and equipment. This rehabilitation work was at no cost to the Company.

FINANCIAL

The Group made the following share issues during the half-year:

Issue of 105,000,000 Fully paid ordinary shares pursuant to the Placement raising \$525,000.

The funds raised will be used for working capital purposes during the development of Lorena as well as project generation.

GOING CONCERN

During the half year, the Group initiated a series of fund raisings to further the development of its Lorena Gold Project and for working capital purposes.

On 5 July 2013 the Group successfully raised \$500,000 of new Convertible Notes to repay one of the noteholders and renegotiated the agreement for the remaining \$500,000 held by the second noteholder. These new Convertible Notes have a 9 month term with an option at the election of the noteholder to extend the Notes for a further 3 months and an option to convert to shares at any time after 6 months at the discretion of the noteholder.

On 31 July 2013, the Group entered into additional Convertible Notes for a total of \$300,000. The terms of the new Convertible Notes are identical to the \$1,000,000 Notes above. The total Convertible Note liability at the date of the directors' report is therefore \$1,300,000 and the first maturity date is 5 April 2014.

On 20 November 2013, the Group raised \$525,000 through a private placement.

The Group and BCD Resources NL ("BCD") have entered into the joint venture for the development of Lorena Gold Project. BCD is required to fund all the costs to develop the project through to initial production. The commissioning of the Lorena project is expected to be completed by July 2014 and once operational the project is expected to deliver significant cash flow to the Group after project working capital balances have been paid down.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of \$789,094 and negative cash flows from operations of \$626,014 during the half year ended 31 December 2013. The Group's cash position at balance date was \$389,521 which will not be sufficient to fund both the cash redemption of the Convertible Notes (if that is required) and the Group's forecast cash outflows from operations for the twelve month period to March 2015. The cost of developing the Lorena Gold Project is being funded by BCD at this stage, however should the Group wish to undertake any further exploration activity this will only be possible as and when sufficient funds are available to the Group.

MALACHITE RESOURCES LIMITED

**Interim Consolidated Financial Report
For The Half-Year 31 December 2013**

DIRECTORS' REPORT

GOING CONCERN (CONTINUED)

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful in one or more of the following:

- achieving positive cash flows from the Lorena Gold Project in the 2015 financial year through BCD's successful development of the project to commercial production, including implementing the required working capital facility for the project,
- raising appropriate funding through equity or debt,
- ensuring that the existing Convertible Notes are either extended for a longer period, converted into shares, or redeemed via a capital raising,
- selling some non-core assets in the short-term,
- entering into a corporate transaction, and
- making further reductions to its ongoing operating cost base.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. This is demonstrated by the capital raised during this reporting period. The Group has also been successful in refinancing or renegotiating the terms of the Convertible Notes. The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in the 2015 financial year. On that basis the directors believe it is reasonable to expect that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2013. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The attached financial report for the half year ended 31 December 2013 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

MATTERS SUBSEQUENT TO THE END OF THE PERIOD

Since the end of the period the Group has sold a land property near to the mining leases associated with the Conrad Silver Project in northern New South Wales for \$295,000.

The property is not a major asset of the Group however the proceeds from the sale will contribute to the Group's working capital requirements while the Lorena Gold Project in northwest Queensland is being developed.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed at Sydney this 13 March 2014 in accordance with a resolution of the directors.



Terry Cuthbertson
Non-Executive Chairman



Auditor's Independence Declaration

As lead auditor for the review of Malachite Resources Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Malachite Resources Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'B Entwistle', is written over a light blue horizontal line.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
13 March 2014

MALACHITE RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR 31 DECEMBER 2013**

| | Notes | 2013 \$ | Half-year 2012 \$ |
|---|-------|------------------|-------------------------|
| Other revenue | 2 | 79,355 | 107,741 |
| Accounting and audit expense | | (30,621) | (27,769) |
| Corporate expenses | | (156,476) | (238,097) |
| Depreciation and amortisation expense | | (27,151) | (35,747) |
| Employee benefits expense | | (158,678) | (239,426) |
| Exploration expenditure expensed | 3 | (355,161) | (162,466) |
| Finance cost | | (116,662) | (223,745) |
| Occupancy expenses | | (31,934) | (56,299) |
| Loss on disposal of non current asset | | (766) | (3,593) |
| Impairment loss for initial write-down of asset | 3 | - | (337,759) |
| Loss before income tax expense | | (798,094) | (1,217,160) |
| Income tax expense | | - | - |
| Loss for the half-year | | <u>(798,094)</u> | <u>(1,217,160)</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income for the half-year | | <u>(798,094)</u> | <u>(1,217,160)</u> |
| Loss for the period is attributable to: | | | |
| Owners of Malachite Resources Limited | | <u>(798,094)</u> | <u>(1,217,160)</u> |
| Total comprehensive income is attributable to: | | | |
| Owners of the company | | <u>(798,094)</u> | <u>(1,217,160)</u> |
| Basic and diluted loss per share (cents per share) | | <u>(0.09)</u> | <u>(0.16)</u> |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

| | Notes | 31 December 2013 \$ | 30 June 2013 \$ |
|--|-------|---------------------------|-----------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 389,521 | 135,685 |
| Trade and other receivables | | 44,873 | 41,780 |
| Other receivables | 7 | <u>75,000</u> | <u>75,000</u> |
| TOTAL CURRENT ASSETS | | <u>509,394</u> | <u>252,465</u> |
| NON-CURRENT ASSETS | | | |
| Other assets | | 454,954 | 507,454 |
| Plant and equipment | | 602,648 | 639,060 |
| Exploration and evaluation expenditure | 3 | <u>26,636,191</u> | <u>26,636,191</u> |
| TOTAL NON-CURRENT ASSETS | | <u>27,693,793</u> | <u>27,782,705</u> |
| TOTAL ASSETS | | <u>28,203,187</u> | <u>28,035,170</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 4 | 330,583 | 178,627 |
| Borrowings | 5 | <u>1,387,910</u> | <u>1,058,645</u> |
| TOTAL CURRENT LIABILITIES | | <u>1,718,493</u> | <u>1,237,272</u> |
| TOTAL LIABILITIES | | <u>1,718,493</u> | <u>1,237,272</u> |
| NET ASSETS | | <u>26,484,694</u> | <u>26,797,898</u> |
| EQUITY | | | |
| Contributed equity | 6 | 56,051,390 | 55,573,227 |
| Reserve | | 2,104,389 | 2,097,662 |
| Accumulated losses | | <u>(31,671,085)</u> | <u>(30,872,991)</u> |
| TOTAL EQUITY | | <u>26,484,694</u> | <u>26,797,898</u> |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR 31 DECEMBER 2013**

**Attributable to owners of
Malachite Resources Limited**

| | Contributed Equity | Reserves | Accumulated losses | Total Equity |
|--|-----------------------|------------------|-----------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Balance as of 1 July 2012 | 54,013,516 | 1,803,688 | (20,937,065) | 34,880,139 |
| Loss for the half-year | - | - | (1,217,160) | (1,217,160) |
| Total comprehensive income for the half- year | 54,013,516 | 1,803,688 | (22,154,225) | 33,662,979 |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs | 1,733,810 | - | - | 1,733,810 |
| Share-based payments | - | 53,801 | - | 53,801 |
| Balance as of 31 December 2012 | 55,747,326 | 1,857,489 | (22,154,225) | 35,450,590 |
| | | | | |
| Balance as of 1 July 2013 | 55,573,227 | 2,097,662 | (30,872,991) | 26,797,898 |
| Loss for the half-year | - | - | (798,094) | (798,094) |
| Total comprehensive income for the half- year | 55,573,227 | 2,097,662 | (31,671,085) | 25,999,804 |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs | 478,163 | - | - | 478,163 |
| Share-based payments | - | 6,727 | - | 6,727 |
| Balance as of 31 December 2013 | 56,051,390 | 2,104,389 | (31,671,085) | 26,484,694 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR 31 DECEMBER 2013**

| | 2013 | Half-year |
|---|-----------------------|-------------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Payments to suppliers and employees (inclusive of GST) | (219,030) | (581,790) |
| Exploration and evaluation expenditure (inclusive of GST) | (376,181) | (487,298) |
| Interest received | 4,602 | 15,131 |
| Interest paid | (110,158) | (68,496) |
| Sundry receipts (inclusive of GST) | <u>74,753</u> | <u>-</u> |
| Net cash outflow from operating activities | <u>(626,014)</u> | <u>(1,122,453)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of prospects | - | 75,000 |
| Proceeds from sale of assets | 22,000 | 500 |
| Proceeds from refund of tenement security deposits | 52,500 | - |
| Repayment of hire purchase loan | <u>(13,276)</u> | <u>(10,397)</u> |
| Net cash inflow (outflow) from investing activities | <u>61,224</u> | <u>65,103</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from unsecured convertible notes | 800,000 | - |
| Repayments of unsecured convertible notes | (500,000) | - |
| Proceeds from loan from related parties | 50,000 | - |
| Convertible notes issue costs | (27,500) | - |
| Proceeds from issue of shares | 525,000 | 1,942,852 |
| Share issue costs | <u>(28,874)</u> | <u>(183,652)</u> |
| Net cash inflow(outflow)from financing activities | <u>818,626</u> | <u>1,759,200</u> |
| NET INCREASE/(DECREASE) IN CASH HELD | 253,836 | 701,850 |
| CASH AT THE BEGINNING OF THE HALF-YEAR | <u>135,685</u> | <u>358,095</u> |
| CASH AT THE END OF THE HALF-YEAR | <u><u>389,521</u></u> | <u><u>1,059,945</u></u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR 31 DECEMBER 2013

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This general purpose financial report is for Malachite Resources Limited and its controlled entities (together, the 'Group') in respect of the interim half-year reporting period ended 31 December 2013 and has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Malachite Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Significant matters relating to the ongoing viability of operations

During the half year, the Group initiated a series of fund raisings to further the development of its Lorena Gold Project and for working capital purposes.

On 5 July 2013 the Group successfully raised \$500,000 of new Convertible Notes to repay one of the noteholders and renegotiated the agreement for the remaining \$500,000 held by the second noteholder. These new Convertible Notes have a 9 month term with an option at the election of the noteholder to extend the Notes for a further 3 months and an option to convert to shares at any time after 6 months at the discretion of the noteholder.

On 31 July 2013, the Group entered into additional Convertible Notes for a total of \$300,000. The terms of the new Convertible Notes are identical to the \$1,000,000 Notes above. The total Convertible Note liability at the date of the directors' report is therefore \$1,300,000 and the first maturity date is 5 April 2014.

On 20 November 2013, the Group raised \$525,000 through a private placement.

The Group and BCD Resources NL ("BCD") have entered into the joint venture for the development of Lorena Gold Project. BCD is required to fund all the costs to develop the project through to initial production. The commissioning of the Lorena project is expected to be completed by July 2014 and once operational the project is expected to deliver significant cash flow to the Group after project working capital balances have been paid down.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of \$789,094 and negative cash flows from operations of \$626,014 during the half year ended 31 December 2013. The Group's cash position at balance date was \$389,521 which will not be sufficient to fund both the cash redemption of the Convertible Notes (if that is required) and the Group's forecast cash outflows from operations for the twelve month period to March 2015. The cost of developing the Lorena Gold Project is being funded by BCD at this stage, however should the Group wish to undertake any further exploration activity this will only be possible as and when sufficient funds are available to the Group.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful in one or more of the following:

- achieving positive cash flows from the Lorena Gold Project in the 2015 financial year through BCD's successful development of the project to commercial production, including implementing the required working capital facility for the project,
- raising appropriate funding through equity or debt,
- ensuring that the existing Convertible Notes are either extended for a longer period, converted into shares, or redeemed via a capital raising,
- selling some non-core assets in the short-term,
- entering into a corporate transaction, and
- making further reductions to its ongoing operating cost base.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. This is demonstrated by the capital raised during this reporting period. The Group has also been successful in refinancing or renegotiating the terms of the Convertible Notes. The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in the 2015 financial year. On that basis the directors believe it is reasonable to expect that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2013. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The attached financial report for the half year ended 31 December 2013 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR 31 DECEMBER 2013

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|------------------------------------|------------------------------------|
| 2 REVENUE | | |
| From continuing operations | | |
| Other revenue | | |
| Interest | 4,602 | 15,131 |
| Other income | 74,753 | - |
| Gain on remeasurement of embedded derivatives | - | 92,610 |
| | <u>79,355</u> | <u>107,741</u> |
| | 31 December 2013 \$ | 30 June 2013 \$ |
| 3 EXPLORATION AND EVALUATION EXPENDITURE | | |
| Costs carried forward in respect of areas of interest in exploration and evaluation phases | <u>26,636,191</u> | <u>26,636,191</u> |
| Movement for the period | | |
| Balance brought forward at the beginning of the period | 26,636,191 | 34,039,886 |
| Current period expenditure | 355,161 | 350,392 |
| Expenditure expensed in current period | (355,161) | - |
| Impairment | - | (7,754,087) |
| Balance at the end of the period | <u>26,636,191</u> | <u>26,636,191</u> |
| Impairment of exploration expenditure pending relinquishment of tenements. | | |
| | 31 December 2013 \$ | 30 June 2013 \$ |
| 4 CURRENT LIABILITIES - PAYABLES | | |
| Trade creditors | 131,358 | 39,157 |
| Other creditors | 183,284 | 114,186 |
| Employee entitlements | 15,941 | 25,284 |
| | <u>330,583</u> | <u>178,627</u> |
| 5 BORROWINGS | | |
| Current | | |
| Unsecured convertible note (a) | 1,290,465 | 1,000,000 |
| Hire purchase liabilities | 47,445 | 58,645 |
| Secured loan* | 50,000 | - |
| Total current borrowings | <u>1,387,910</u> | <u>1,058,645</u> |

* A loan from a related party of CEO, G Hiller, with an interest rate of 10% p.a. and secured against the Jadree property.

(a) Unsecured convertible note

In July 2013 the Group entered into new Convertible Notes which have a total face value of \$1,300,000. Of this amount \$500,000 was applied directly as a refinancing of notes that matured on 5 July 2013.

The terms of the new Convertible Notes can be summarised as follows:

- Issue Price of each Note - \$50,000;
- Term of Notes – 9 months which may be extended at the election of Noteholders for a further term of 3 months;
- Interest Rate – 15% per annum for initial 9 month term and then 17.5% per annum for any extended 3 month term;
- Conversion – at the election of Noteholders at any time after 6 months; and
- Conversion Price - 20% discount to the 30 Day VWAP at the time of conversion.

Shareholder approval was sought at the Company's Annual General Meeting in November 2013 to approve the conversion of these Notes into fully paid ordinary shares should Noteholders elect to exercise their conversion rights.

Two of the Notes were issued to related parties, non executive directors, T Cuthbertson and A McMillan.

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR 31 DECEMBER 2013

| 6 CONTRIBUTED EQUITY | 31 December 2013 | 30 June 2013 |
|--|-----------------------------|-------------------------|
| | \$ | \$ |
| 1,005,576,368 fully paid ordinary shares (June 2013: 900,576,368) | 56,051,390 | 55,573,227 |
| | <u>56,051,390</u> | <u>55,573,227</u> |

Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value.

Movement in ordinary share capital

| | |
|---|-------------------|
| Balance at the beginning of the period | 55,573,227 |
| Shares issued during the period | |
| Issue of 105,000,000 Fully paid ordinary shares pursuant to the Placement raising \$525,000. | 525,000 |
| Transaction costs relating to share issues | (46,837) |
| Balance at the end of the period | <u>56,051,390</u> |

The funds raised are being used to provide working capital to continue project generation and project enhancement.

| 7 OTHER RECEIVABLES | 31 December 2013 | 30 June 2013 |
|--|-----------------------------|-------------------------|
| | \$ | \$ |
| Carrying value of exploration and evaluation expenditure | 75,000 | 375,000 |
| Payments under the terms of purchase and sale agreement | - | (100,000) |
| Write-down of the asset to fair value | - | (200,000) |
| | <u>75,000</u> | <u>75,000</u> |

The balance represents the fair value of the deferred consideration on the sale of Exploration License 6196 and 7177 to Elsmore Resources Limited.

8 CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

9 SEGMENT INFORMATION

The economic entity operates in two segments within mineral exploration and development in Australia. The Group has two reportable segments, as described below, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a monthly basis.

Lorena

The development of the Group's main mining project, the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

Other Tenements

Carrying out exploration and seeking further development of other tenements.

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR 31 DECEMBER 2013

9 SEGMENT INFORMATION (CONTINUED)

The key segment assets as reported to the Board are as follows:

| <i>Exploration</i> | 31 December 2013 \$ | 30 June 2013 \$ |
|--------------------|------------------------------------|--------------------------------|
| Lorena | 23,721,191 | 23,721,191 |
| Other Tenements | 2,915,000 | 2,915,000 |
| | 26,636,191 | 26,636,191 |

| 31 December 2013 | Lorena | Other Tenements | Corporate | Total |
|---|------------------|----------------------------|------------------|------------------|
| Revenue from continuing operations | - | - | 79,355 | 79,355 |
| Accounting and audit expense | - | - | (30,621) | (30,621) |
| Corporate expenses | - | - | (156,476) | (156,476) |
| Depreciation and amortisation expense | - | - | (27,151) | (27,151) |
| Employee benefits expense | - | - | (158,678) | (158,678) |
| Exploration expenditure expensed | (267,480) | (87,681) | - | (355,161) |
| Finance costs | - | - | (116,662) | (116,662) |
| Occupancy expenses | - | - | (31,934) | (31,934) |
| Loss on disposal of non current asset | - | - | (766) | (766) |
| Impairment loss for initial write-down of asset | - | - | - | - |
| Loss before income tax expense | (267,480) | (87,681) | (442,933) | (798,094) |
| Income tax expense | - | - | - | - |
| Net loss for the half year | (267,480) | (87,681) | (442,933) | (798,094) |

| 31 December 2012 | Lorena | Other Tenements | Corporate | Total |
|---|---------------|----------------------------|------------------|--------------------|
| Revenue from continuing operations | - | - | 107,741 | 107,741 |
| Accounting and audit expense | - | - | (27,769) | (27,769) |
| Corporate expenses | - | - | (238,097) | (238,097) |
| Depreciation and amortisation expense | - | - | (35,747) | (35,747) |
| Employee benefits expense | - | - | (239,426) | (239,426) |
| Exploration expenditure expensed | - | (162,466) | - | (162,466) |
| Impairment of exploration assets | - | (337,759) | - | (337,759) |
| Finance costs | - | - | (223,745) | (223,745) |
| Occupancy expenses | - | - | (56,299) | (56,299) |
| Other expenses from ordinary activities | - | - | (3,593) | (3,593) |
| Loss before income tax expense | - | (500,225) | (716,935) | (1,217,160) |
| Income tax expense | - | - | - | - |
| Net loss for the year | - | (500,225) | (716,935) | (1,217,160) |

10 MATTERS SUBSEQUENT TO THE END OF THE PERIOD

Since the end of the period the Group has sold a land property near to the mining leases associated with the Conrad Silver Project in northern New South Wales for \$295,000.

The property is not a major asset of the Group however the proceeds from the sale will contribute to the Group's working capital requirements while the Lorena Gold Project in northwest Queensland is being developed.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

MALACHITE RESOURCES LIMITED

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date, and

- (b) Whilst there are conditions that may cast significant doubt on the Group's ability to continue as a going concern as outlined in note 1(a), there are reasonable grounds to believe that Malachite Resources Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Terry Cuthbertson
Non-Executive Chairman

Sydney,
13 March 2014



Independent auditor's review report to the members of Malachite Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Malachite Resources Limited (the Company), which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Malachite Resources Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Malachite Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Malachite Resources Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1 (a) in the financial report which indicates that the consolidated entity has experienced operating losses and negative operating cash flows during the period ended on 31 December 2013. As a result the consolidated entity is dependent upon being successful in raising additional funds to support cash redemption of Convertible Notes (if that is required) and forecast cash flows from operations. These conditions, along with other matters as set forth in Note 1 (a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle

Brett Entwistle
Partner

Sydney
13 March 2014